

STATE FINANCE COMMITTEE  
OLYMPIA, WASHINGTON

July 31, 2001

The State Finance Committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer  
Brad Owen, Lieutenant Governor

Also Present: Allan J. Martin, Office of the State Treasurer  
Jeanne A. Cushman, Office of the Attorney General  
Svein Braseth, Office of the State Treasurer  
Rodney Wendt, Orrick Herrington & Sutcliffe  
Nancy Adams, Office of the State Treasurer  
Dean Torkelson, Seattle Northwest Securities  
Kristi Wolgamot, Office of the State Treasurer  
Bill Tonkin, Foster Pepper & Shefelman  
Laurie Williams, Seattle Northwest Securities  
Robert Shelley, Seattle Northwest Securities  
Barton Potter, Office of the State Treasurer  
Gretchen Gale, Office of the State Treasurer  
Suzanne Coit, Office of the State Treasurer  
Susan Melvin, Office of the State Treasurer  
Susan Musselman, Susan D. Musselman, Inc.  
Benjamin J. Juergens, Orrick Herrington & Sutcliffe  
Mike Roberts, Office of Financial Management  
Vicki Cox, Office of the State Treasurer

Chairman Murphy called the meeting to order.

Lieutenant Governor Owen moved the minutes for the May 22, 2001 meeting be approved. Chairman Murphy seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin said Proposed Resolution No. 943 accepts a bid for the purchase of State of Washington Various Purpose General Obligation Bonds, Series 2002A in the aggregate principal amount of \$306,595,000; fixing the interest rates and designating serial and term bond maturities for the bonds; all in accordance with Resolution No. 941. Mr. Martin stated that four bids were received and accepted electronically through Parity at 7:30 a.m. J.P. Morgan Securities, Inc. submitted a true interest cost (TIC) of 4.9839817%; Merrill Lynch & Co. submitted a TIC of 4.9569293%; Salomon Smith Barney, Inc. submitted a TIC of 4.9861672%; and UBS

PaineWebber Inc. submitted a TIC of 4.9689107%, with the apparent low bidder being Merrill Lynch & Co. Mr. Torkelson said these rates were near a ten year low and that the bids were tight. Mr. Martin said Moody's gave a rating of Aa1, Standard & Poor's gave a rating of AA+ and Fitch gave a rating of AA+ to these bonds.

Mr. Martin presented proposed Resolution No. 943 to the committee.

Resolution No. 943 awards the sale of \$306,595,000 State of Washington Various Purpose General Obligation Bonds, Series 2002A, authorized by Chapter 14, Laws of 1989, 1<sup>st</sup> Sp. Sess.; Chapter 15, Laws of 1990, 1<sup>st</sup> Ex. Sess; and Chapter 380, Laws of 1999; and Chapter 39.42 RCW.

Lt. Governor Owen moved to adopt Resolution No. 943. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said Proposed Resolution No. 944 accepts a bid for the purchase of State of Washington General Obligation Bonds (State Housing Trust Fund), Series 2002T (Taxable) in the aggregate principal amount of \$31,500,000; fixing the interest rates for the bonds; in accordance with Resolution No. 942. He said eleven bids were received and accepted electronically through Parity at 8:00 a.m and one bid was walked in, making it a record number of bids received for one bond sale. Banc of America Securities submitted a TIC of 5.1574150%; Dain Rauscher, Inc. submitted a TIC of 4.9138219%; First Albany Corporation submitted a TIC of 4.9196768%; Griffin, Kubik, Stephens & Thompson, Inc. submitted a TIC of 4.9171978%; J.P. Morgan Securities, Inc. submitted a TIC of 4.8509457%; US Bancorp Piper Jaffray submitted a TIC of 5.0357810%; Lehman Brothers submitted a TIC of 4.9907232%; Merrill Lynch & Co. submitted a TIC of 4.9296997%; NBC Capital Markets Group, Inc. submitted a TIC of 5.3019780%; Raymond James & Associates, Inc. submitted a TIC of 5.1355671%; Salomon Smith Barney, Inc. submitted a TIC of 4.9133150%; and UBS PaineWebber Inc. submitted a TIC of 4.9077414% with the apparent low bidder being J.P. Morgan Securities, Inc.

Chairman Murphy explained for the benefit of TVW and its viewers that the State Housing Trust Fund taxable bonds were structured differently than various purpose bonds which is used for capital constructions, etc. He said the Legislature gave approval to create a new account/fund in the Treasury so that taxable bond revenues could be segregated and tracked separately for IRS requirements.

Mr. Martin presented proposed Resolution No. 944 to the committee.

Resolution No. 944 awards the sale of \$31,500,000 State of Washington Various Purpose General Obligation Bonds, Series 2002T (Taxable), authorized by Chapter 9, Laws of 2001, 2<sup>nd</sup> Sp. Sess., and Chapter 39.42 RCW.

Lt. Governor Owen moved to adopt Resolution No. 944. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said Proposed Resolution No. 945 authorizes the issuance from time to time of Various Purpose General Obligation Refunding Bonds of the state, in the maximum principal amount of \$1,200,000,000, and Motor Vehicle Fuel Tax General Obligation Refunding Bonds of the state, in the maximum principal amount of \$400,000,000, for the purpose of refunding certain outstanding Various Purpose General Obligation Bonds, Various Purpose General Obligation Refunding Bonds, Motor Vehicle Fuel Tax General Obligation Bonds, and Motor Vehicle Fuel Tax General Obligation Refunding Bonds of the state; making certain other provisions securing the payment of the principal of and interest on the bonds; approving the form of a refunding escrow agreement with respect to the bonds to be refunded; and providing for other matters properly relating thereto.

Mr. Martin said from time to time, State Finance Committee has adopted “omnibus” refunding resolutions. These resolutions provide for the authority to refund outstanding bonds as market conditions permit in a timely manner. Since March 1995, the State Finance Committee has authorized two omnibus refunding resolutions providing for the authority to refund outstanding various purpose and motor vehicle fuel tax bonds of the state: Resolution 818 and Resolution 875. Nearly \$2 billion of refundable bonds have been issued since April 1998. Proposed Resolution No. 945 will add outstanding bonds to the list of bonds available for refunding.

Mr. Torkelson said that refundings are extremely interest rate sensitive and this resolution allows the state to take advantage of rates and to act quickly. Chairman Murphy said that currently the IRS allows only one advance refunding of a bond and that the National Association of State Treasurers has sought to change that. Mr. Martin said that since 1995, more than \$1.44 billion in refunding bonds have been issued, achieving more than \$100 million in net present value savings.

Mr. Martin presented proposed Resolution No. 945 to the committee.

Resolution No. 945 authorizes the issuance of Various Purpose General Obligation Refunding Bonds of the state, in the maximum principal amount of \$1,200,000,000, and Motor Vehicle Fuel Tax General Obligation Refunding Bonds of the state, in the maximum principal amount of \$400,000,000, for the purpose of refunding certain outstanding Various Purpose General Obligation Bonds, Various Purpose General Obligation Refunding Bonds, Motor Vehicle Fuel Tax General Obligation Bonds, and Motor Vehicle Fuel Tax General Obligation Refunding Bonds of the state; making certain other provisions securing the payment of the principal of and interest on the bonds, approving the form of a refunding escrow agreement with respect to the bonds to be refunded; and providing for other matters properly relating thereto.

Lt. Governor Owen moved to adopt Resolution No. 945. Chairman Murphy seconded the motion and the resolution was adopted.

Chairman Murphy recognized Ms. Wolgamot, and explained that Certificates of Participation (COPs) look a lot like bonds, but are structured differently. Ms. Wolgamot said Proposed Resolution No. 946 authorizes the issuance and sale of an amount up to \$5,000,000 of state of Washington Certificates of Participation plus financing costs and required reserves for the Department of Veterans Affairs, Eastern Washington State Veteran's Home Project (Spokane Veterans Home). The Department of Veterans Affairs received authorization from the Legislature through Laws of 2001, 2<sup>nd</sup> Sp. Sess., Chapter 8, Section 907(5)(b) to enter into a financing contract in the 2001-2003 biennium to purchase a state veterans home in eastern Washington. Proceeds of the sale will be used for the purchase of an existing healthcare facility to serve as the Spokane Veterans Home, which will offer skilled nursing care for up to 100 eligible veterans and is expected to be open by September of 2001. Authorization of the COPs by the State Finance Committee is being requested pursuant to an internal policy whereby no projects in the over \$4 million category will be financed without approval of the State Finance Committee by resolution.

Mr. Martin presented proposed Resolution No. 946 to the committee.

Resolution No. 946 approving a State Agency Financing Lease and related documents to be entered into by the state Department of Veterans Affairs for the purchase of a state veterans' home in eastern Washington as authorized by Laws of 2001, 2<sup>nd</sup> Sp. Sess., Chapter 8, Section 907(5)(b), and the execution, delivery and sale of up to \$5,000,000, plus financing expenses and required reserves, of State of Washington Certificates of Participation, Department of Veterans Affairs (Eastern Washington State Veterans Home Project), therein pursuant to Chapter 39.94 RCW.

Lt. Governor Owen moved to adopt Resolution No. 946. Chairman Murphy seconded the motion and the resolution was adopted.

Ms. Wolgamot said Proposed Resolution No. 947 approves a State Agency Financing Lease and related documents to be entered into by the Office of the State Treasurer and the University of Washington and authorizes the issuance and sale of an amount up to \$13,000,000 of State of Washington Certificates of Participation plus financing costs and required reserves for the University of Washington, Sand Point Building 5 and Sand Point Building 29 Projects. Through Laws of 2001, 2<sup>nd</sup> Sp. Sess., Chapter 8, Section 907 (9) (a) & (b), the University of Washington received authorization from the Legislature to enter into financing contracts to renovate Building No. 5 and Building No. 29 at the Sand Point Campus for the 2001-2003 biennium. Ms. Wolgamot said that authorization for the COPs by the State Finance Committee is being requested pursuant to an internal policy whereby no projects in the over \$4 million category will be financed without approval of the State Finance Committee by resolution.

Mr. Martin presented proposed Resolution No. 947 to the committee.

Resolution No. 947 approving a State Agency Financing Lease and related documents to be entered into by the Office of the State Treasurer and the University of Washington, authorizing the issuance and sale of an amount up to \$13,000,000 of State of Washington Certificates of Participation plus financing costs and required reserves for the University of Washington, Sand Point Building 5 and Sand Point Building 29 Projects, as provided by Laws of 2001, 2<sup>nd</sup> Sp. Sess., Chapter 8, Section 907 (9) (a) & (b).

Lt. Governor Owen moved to adopt Resolution No. 947. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin presented the proposed 2001-2003 biennium Certificate of Participation financing plan. Mr. Martin explained that the master lease/purchase financing was initially authorized by the 1989 legislature by Chapter 356, Laws of 1989 (codified as Chapter 39.94 RCW). In 1998, the Legislature authorized the expansion of the lease/purchase program to include local agencies. The first Local Option Capital Asset Lending (LOCAL) equipment lease/purchase financing was completed in 1998 and the first real property financing was completed in 2000. Certificates of Participation (COPs) issued by the lease/purchase program for the financing of equipment and real estate are currently rated Aa2 by Moody's Investor Service. Moody's rates each COP issue individually. The lease/purchase program has made administrative improvements throughout its history. The program uses standardized documentation and completed rule making following a public process in 2001 (WAC 210-03). In the 1999 - 2001 biennium, fourteen state real estate transactions ranging in size from \$1,605,000 to \$184,700,000 were financed by the Office of the State Treasurer. The Certificates of Participation were offered on a stand alone competitive bid basis and received low rates.

Mr. Martin said RCW 39.94.040 provides that the state may not enter into any financing contract for itself if the aggregate principal amount payable thereunder is greater than an amount to be established from time to time by State Finance Committee. It is proposed that the aggregate amount payable authorized under RCW 39.94 for the 2001-2003 biennium not exceed \$695 million. Currently the threshold for State Finance Committee approval of projects is set at \$4 million. It is proposed that all legislatively authorized lease/purchase projects under \$6 million are to be authorized by the committee's adoption of this financing plan. Projects over \$6 million will be financed only after individual approval by resolution of the State Finance Committee. No state projects in the over \$6 million category will be financed without approval of the State Finance Committee by resolution.

Lt. Governor Owen made a motion "That the Proposed Finance Plan for the issuance of lease/purchase Certificates of Participation during the 2001 - 2003 Biennium as set forth in the Memorandum dated July 24, 2001 is hereby adopted and shall be set forth in the minutes of this meeting; that, pursuant to RCW 39.94.040, the State Finance Committee hereby sets the aggregate principal amount for Certificates of Participation to be issued for the state during the 2001-2003 Biennium at \$189 million; that the State Treasurer is directed to implement the proposed 2001-2003 lease/purchase Finance Plan as adopted; that during the 2001-2003

Biennium the financing of any individual, legislatively authorized state lease/purchase project of \$6 million or less is hereby authorized by the Committee's adoption of the Financing Plan, and that the financing of any individual, Legislatively authorized state lease/purchase project in excess of \$6 million shall require approval of the Committee by resolution." Chairman Murphy seconded the motion and the motion was adopted.

Mr. Martin thanked staff, financial advisors and bond counsel for their work on the different issues. There being nothing further to come before the committee, the meeting was adjourned at 9:35 a.m.

STATE FINANCE COMMITTEE  
STATE OF WASHINGTON

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Michael J. Murphy, State Treasurer & Chairman

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Gary Locke, Governor & Member

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Brad Owen, Lieutenant Governor & Member

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Allan J. Martin  
Deputy State Treasurer & Secretary